



Doing Business In JAMAICA: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In JAMAICA

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Market Overview

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- The Jamaican economy, suffering the effects of Hurricane Dean and rising oil prices, is projected to grow by under two percent for 2007, below the three to four percent target for the year. Real GDP for the nine month period to September 2007 was 1.6 percent. While construction, distribution and financial services recorded relatively strong growth, it was largely nullified by declines in agriculture and mining, the sectors most affected by the hurricane. Growth could remain stagnant as certain sectors recover from the adverse weather conditions. The goods-producing sector should decline, but the services sector could accelerate on the back of increased stop-over tourist arrivals. However, serious challenges are expected to come from emerging macro-economic instability and in particular foreign exchange market and price volatility.
- The fiscal dynamics worsened during FY 2006/07, with GOJ operations generating a fiscal deficit of around USD 540 million or 5.3 percent of GDP, a significant deviation from the 2.5 percent target. The negative fiscal developments forced a postponement of the planned achievement of a balanced budget during the fiscal year. The fiscal position has improved for the first nine months of the 2007/08 fiscal year, with the fiscal deficit to GDP lagging projection by almost USD 55 million due to higher than anticipated revenue collections and one off gains. However, the fiscal deficit to GDP target for the full fiscal year is still programmed to be over five percent (original target of 4.5 percent), suggesting a continued deterioration in the medium term fiscal situation.
- Inflation in Jamaica surged to 16.8 percent for 2007, the highest rate registered in over a decade. At this level, prices were almost ten percentage points higher than the upper Government of Jamaica (GOJ) target of seven percent. Inflationary pressures were largely driven by soaring domestic agricultural and international commodity prices. Prices could continue to increase in 2008, but at a decreasing rate, particularly if a recession emerges in the U.S. which could reduce prices for oil and other commodities due to lower demand. However, inflationary impulses

could emanate from rising wages as Jamaican workers demand higher compensation to restore their living standards.

- The local currency, continued to slip against the U.S. Dollar in 2007, depreciating by 4.9 percent for the year. The decline against the weakening U.S. dollar was due to both demand and supply imbalances. Contributing to the supply shortfall were the: (1) lull in tourism receipts; (2) decline in private capital inflows due to the narrowing interest rate differential between domestic and international assets; (3) disruption caused by the hurricane; and, (4) uncertainty surrounding the general elections held in September. Demand pressures emanated from increased demand for foreign currency to meet rising commodity prices, as well as high levels of domestic liquidity. This forced the central bank to intervene in the market by offering higher yielding Jamaican Dollar instruments to absorb the excess liquidity, reversing the downward interest rate trend observed since 2004. The bank also sold part of its reserves, which led to a decline in the stock of Net International Reserves (NIR) to USD 1.88 billion at the end of December 2007.
- The US remains Jamaica's main trading partner accounting for around 40 percent of total trade. On average Jamaica imports and exports 45 and 30 percent of its goods from and to the US, respectively. Jamaica's other major trading partners in order of volume are Trinidad and Tobago, the UK, Canada, Japan and China.
- Bilateral relations between Jamaica and the United States are good. Although the two countries occasionally disagree over specific issues, most notably relations with Cuba, Jamaica has supported many U.S. objectives in the Caribbean region. There are no major political issues affecting the business climate in Jamaica. Both major political parties favor attracting foreign investment.

Market Challenges

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- Since the early 1990's Jamaica has embarked on a program of gradual duty reduction, which has seen reductions in several categories. Permits and import licenses are now only required for a few items. These include meat, ground provisions, fruits, vegetables, drugs, firearms, used tires and two-way radios. While it has generally become easier to import items into Jamaica, technicalities exist, (such as the growing importance of standards issues), of which one needs to be aware.
- Jamaica operates a Common External Tariff (CET) along with other trading partners of the Caribbean Community (CARICOM). Goods imported from third countries are subject to the duties listed in the CET but goods imported from CARICOM countries and are certified to be of CARICOM origin do not generally

attract these import duties. These CARICOM origin goods enjoy duty-free status, that is, they are not subject to Customs import duty, but local taxes, General Consumption Tax and Special Consumption Tax are payable. For information on CARICOM, please visit www.caricom.org

- In addition to the Common External Tariff, other payable fees include the Customs User Fee and the Standards Compliance Fee (SCF). The SCF is 0.3% of the CIF value of the import and is collected on behalf of the Jamaica Bureau of Standards. Many items (such as motor vehicles) also attract additional special taxes. The General Consumption Tax (GCT) is also usually payable upon entry. The GCT is a sales tax, which is recoverable from the final consumer.

Market Opportunities

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- The United States is Jamaica's primary trading partner. Proximity, quality and service have encouraged Jamaican businessmen to purchase from the United States.
- After a period of lackluster economic activity, projections are that Jamaica could have improved growth prospects in the years to come. Sectors, which should have good prospects are Building Products, Safety/Security Equipment, Telecommunications Equipment, Drugs and Pharmaceuticals. – tourism related activities, non-traditional agriculture – agribusiness and the ICT sector.
- The following sectors have attracted the most attention by foreign investors: Agribusiness, Chemicals and Minerals, Energy, Entertainment - Music and Film, Information and Communications Technology, Infrastructure, Mining and Tourism.
- Major projects include: The GOJ-led high-end Harmony Cove tourist development, several hotel developments, airport and seaport improvement, highway development, activities related to Cricket World Cup 2007, mining (bauxite/alumina and limestone), and energy.

Market Entry Strategy

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- Several strategies may be considered for entering the Jamaican market.

- Agents and Distributors are commonly used and the U.S. Commercial Service will assist U.S. firms in their search.
- While business can be conducted through telephone conversations, it is more effective if this is limited to making appointments. In fact, most Jamaican businessmen are more comfortable with face-to-face meetings when negotiating business arrangements. Relationship marketing is also prevalent, with distributors generally interested in visiting their suppliers to conduct due diligence. Exclusive arrangements, 30-day credit and franchising arrangements are common business practices.

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